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**VIA FEDERAL EXPRESS**

**AUG 2 1996**

**FCC L E 2000**

**DOCKET FILE COPY ORIGINAL**

Re: In the Matter of Federal-State Joint Board on Universal Service Reply Comments of the Minnesota Independent Coalition  
Docket No.: 96-45

Dear Secretary:

Enclosed for filing are an original and six (6) copies of Further Comments Of The Minnesota Independent Coalition In The Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45. One copy has also been sent to the Commission's copy contractor, International Transcription Service, Room 640, 1990 M Street, N.W., Washington, D.C. 20036. In addition, a copy of the enclosed filing has been submitted on diskette to Ernestine Creach, Common Carrier Bureau, Accounting and Audits Division, 2000 L Street, N.W., Suite 257, Washington, D.C. 20554. Also enclosed is our affidavit of service.

If you should have any questions regarding the enclosures or other issues with respect to the filing submitted on behalf of the Minnesota Independent Coalition please feel free to contact the undersigned.

Very truly yours,

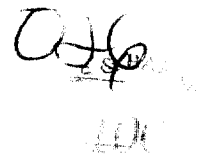
MOSS & BARNETT,  
A Professional Association

  
Richard J. Johnson

Enclosure

cc: All parties of record (with enclosure)  
International Transcription Service (with enclosure)  
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/jdh  
26614/KJ@011.DOC



CERTIFICATE OF SERVICE

I hereby certify that an original and six copies of Further Comments of the Minnesota Independent Coalition were sent via federal express on the 1st day of August, 1996, to the following:

Office of the Secretary  
Federal Communications Commission  
1919 M Street, NW  
Washington, DC 20554

and by United States Mail, postage prepaid, to the following persons:

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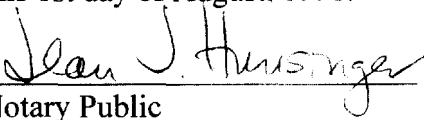
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Dated this 1st day of August, 1996.

  
June Holmgren

Subscribed and sworn before me  
this 1st day of August, 1996.

  
Notary Public



BEFORE THE  
**FEDERAL COMMUNICATIONS COMMISSION**

WASHINGTON, D C. 20554

REC'D  
AUG 2 1996  
FCC

FCC 96-93 )  
In the Matter of )  
Federal-State Joint Board on )  
Universal Service )

CC Docket No. 96-45

**FURTHER COMMENTS OF THE MINNESOTA  
INDEPENDENT COALITION**

**Minnesota Independent Coalition**

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Its Attorneys

Date: August 2, 1996

## **SUMMARY OF FURTHER COMMENTS OF MINNESOTA INDEPENDENT COALITION**

The Minnesota Independent Coalition is pleased to respond to the certain of the additional Specific Questions released by the Common Carrier Bureau on July 3, 1996.

A number of the additional Specific Questions address the critical topics of “affordability” and “comparability of rates and services.” The focus on “affordability” and “comparability” is appropriate because these specific new criteria define the goals of universal service support under the Telecommunications Act of 1996 (the “Act”). The Act requires that universal service support lead to an appropriate result for customers. Clearly, the concept of affordability and comparability of rates and services are “outputs” or results of universal service support. It is not sufficient that models be conceptually sound or that inputs be well selected. Rather, the Act requires that the Joint Board assure that the results of the model for customers are consistent with the Act.

### **Specific Questions and Answers**

The significance of the size of service areas was clearly recognized. (Questions 1 and 2.) Given the requirement of “comparability of rates and services”, it is essential that the specific characteristics of services, including the local calling scope, be considered. A reasonable approach to determine both affordability and comparability is to compare the total telephone expenditures of customers in urban and rural areas.

The potential for advantages and disadvantages of the proxy model were also noted. (Question 3.) The primary advantage of facilitating multiple eligible telecommunications carriers (“ETCs”) does not fit the Act’s restrictions on additional ETCs in rural areas.

Accordingly, the disadvantages of inaccuracy and discouragement of investment for rural LECs far outweighs any advantages in rural LEC areas.

The specific questions also included discussion of the services provided to public institutions. (Question 10.) Clearly, the Act prohibits any transfer for value, whether based upon cost of service or other issues. Promotion of the development of community network does not satisfy the Act.

Possible modifications to existing high-cost support mechanisms are also addressed. (Questions 26 and 27.) While it is necessary that the range of contributors be expanded to meet the non-discriminatory requirements of Section 254(b)(4), universal service mechanisms such as the High-Cost Fund and Dial Equipment Minutes mechanism are already well targeted to serve the purposes of the Act. While better targeting may be possible, it is not required by the Act.

The possible use of actual book costs of incumbent LEC by both incumbents and new competitors was also raised. (Question 28.) While it is appropriate for rural incumbent LECs to use book costs, it would be completely inappropriate for new competitors to use those book costs. It would be inappropriate because book costs of incumbent LECs may far exceed the costs of a new competitor, which would result in an unreasonable subsidy and incentives for uneconomic investment.

The possibility of a bifurcated plan with some LECs using proxy costs and some using actual book costs was also noted. (Question 31.) Only rural telephone companies should be eligible for use of actual costs in such a plan. Rural telephone companies should meet the criteria 47 U.S.C. § 153(47), the criteria of Section 251(f)(2) and should not include Price CAP LECs.

The prospect of transition away from book costs was also discussed. (Question 32.) Transition to a system of competitive bidding would never be appropriate for rural LECs because

of the potential for error and misuse. The use of a proxy model would also be inappropriate because of undesirable incentives and disincentives for making necessary long-term investments.

Necessary steps to ensure comparability were also discussed in the context of a proxy model. (Question 40.) As noted, the Act emphasizes results, which necessitates consideration of both calling scope and a variety of other factors that affect the actual comparability of services.

The effects of the proxy model on infrastructure development were also discussed. (Question 42.) The proxy model provides inappropriate disincentives for rural LECs because of the risk that a long-term investment will not remain state-of-the-art and because declining costs of new technology would penalize prior investments.

Issues relating to LECs with book costs substantially above projected costs were also discussed. (Question 43.) Rural LECs should be allowed to select the use of actual or projected costs, subject to that selection being binding for a reasonable period of time. There should be no elaborate waiver process.

BEFORE THE  
**FEDERAL COMMUNICATIONS COMMISSION**

WASHINGTON, D.C. 20554

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In the Matter of  
Federal-State Joint Board on  
Universal Service

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CC Docket No. 96-45

**FURTHER COMMENTS OF THE MINNESOTA  
INDEPENDENT COALITION**

The following Comments are submitted by the Minnesota Independent Coalition, an unincorporated association of over 80 small "Rural Telephone Companies", ("Rural LECs"), within the meaning of 47 U.S.C. § 153(47). These Comments are submitted in response to certain of the Specific Questions of the Common Carrier Bureau released July 3, 1996 which are of particular significance to Rural LECs, including members of the Minnesota Independent Coalition.

**1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?**

In general, current rates for local services are affordable in the sense that subscribership levels are high and most persons who do not have telephone service either lack available facilities or do not have service because of the cost of long distance services, not local services. However, both "affordability" and the separate criteria of "comparability" should take into account the total telephone bills paid by subscribers, including basic flat rate local service, local

per call usage charges, extended area service ("EAS") surcharges, if any, and at least short haul toll usage, which is a functional equivalent for many rural customers for some of the "local" flat rate calling made by customers in larger, urban calling areas. Only in this way can significant differences in calling scopes be properly reflected so that the variety of services provided under the general description of local calling are in fact comparable.

As discussed in the following Answer to Question 2, the differences between the flat rate local calling scopes of the rural exchanges of many Minnesota Independent Coalition members and the flat rate local calling scope of the Minneapolis/St. Paul Metropolitan Area graphically illustrate the significance of local calling scope to comparability of rates and services.

**2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?**

Non-rate factors, in particular size of the flat rate local calling area, are critical to the determination of whether services are truly comparable and accordingly whether the rates are comparable. The importance of this concept is well illustrated by the extremely wide variation in flat rate local calling areas in Minnesota.

In Minnesota, the Minneapolis/St. Paul Metropolitan Calling Area, including communities with flat rate EAS, has approximately 1.5 million access lines which can be called without additional usage charge. The rates paid by customers within this area vary widely, depending in particular on when exchanges were added to the area. While the flat rate calling area is the same for most of these customers, the total monthly rates paid, including the basic monthly charges plus EAS surcharges, vary widely. It would be misleading and inconsistent with the direction of the Act to ignore the total charges paid by customers in this area and instead

focus solely on the monthly basic service charges while ignoring the mandatory EAS surcharges paid by some of these Metro Area customers.

The same is even more true of customers in many exchanges served by members of the Minnesota Independent Coalition. Many of these local exchanges include 1,500 access lines or less which can be called without toll charges. As a result, customers in these exchanges must use toll calling for access to schools, businesses, and health and other services requiring routine, daily communication. Clearly, a comparison of only basic monthly rates without consideration of the size of the respective "local calling areas" would not establish comparability of rates and services between customers in the Minneapolis/St. Paul area and customers in small rural exchanges in Minnesota.

While it is clear that customers in Minneapolis/St. Paul do not actually use the access to the full 1.5 million other access lines, all customers use a combination of flat rate local calling, flat rate EAS, perhaps local measured usage, and short haul toll usage to meet daily calling needs. It is reasonable to assume the customers' actual usage patterns and levels reflect their needs. Accordingly, "comparability" of rates and services must take into account the monthly rates paid by customers for all of the forms of calling that serve their daily needs in the combinations required by those customers. As a result "comparability" should take into account the combination of flat rate local, flat rate EAS, local measured service and short haul toll calling used by customers. Such data was provided to the Commission in 1995 through the Universal Service Fund Data Collection process in Section C Subscriber Information, in particular Lines 140 - 156.

**3. When making the “affordability” determination required by Section 254(i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy mode?**

For areas served by rural telephone companies, the disadvantages of using a specific national benchmark rate for core services significantly out-weigh the advantages.

A national benchmark rate would allow payments to be made to multiple universal service providers even if those providers do not follow the Uniform System of Accounts, 47 C.F.R. Part 32. Such a benchmark would provide a common starting point for analysis, and would tend to reduce the effort involved in determining levels of universal service support to be paid. These features are far less significant in areas served by rural telephone companies than in areas served by larger telephone companies and are outweighed by the substantial disadvantages of a benchmark system

First, as reflected in Section 214 (e), the presumptions concerning the designation of Eligible Telecommunications Carriers (“ETCs”) are far different in areas served by rural LECs than in areas served by other LECs. Section 214(e) (2) reads in part:

Upon request and consistent with the public interest, convenience, and necessity, the State commission may, in the case of an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier as an eligible telecommunications carrier for a service area designated by the State commission, so long as each additional requesting carrier meets the requirements of paragraph (1). Before designating an additional eligible telecommunications carrier for an area served by a rural telephone company, the State commission shall find that the designation is in the public interest.

(Emphasis added). Clearly, § 214(e)(2) establishes different criteria for the designation of multiple ETCs in areas served by rural LECs. In rural LEC areas, a State commission may designate multiple ETCs only if it makes certain findings in advance. In areas served by other LECs, State commissions are directed to designate multiple ETCs if certain findings are made.

Clearly, the basic pattern is far different, with multiple ETCs being encouraged, if not required, in large LEC areas and multiple LECs being carefully controlled in rural LEC areas. As a result, the facilitation of multiple ETCs that is inherent in the benchmark approach is not significant to rural LEC areas.

While the benchmark model may provide some limited administrative advantages in rural LEC areas, these advantages are substantially outweighed by the significant disadvantage of a high probability of erratic and significantly inaccurate results with the resulting inconsistency with the Act's requirements of affordability and comparability of rates.

Whatever the conceptual advantages of the benchmark cost models, the fact remains that most rural LECs must recover the actual costs of embedded investments to provide service to their customers. The actual cost of these embedded investments is the relevant cost for both the Rural LECs providing service and the consumers from whose perspective "affordability" and "comparability" requirements under the Act must be met. If the theoretical costs of the benchmark model do not reflect the costs of the facilities used to provide service to rural customers, the requirements of the Act will not be met.

Many Rural LECs with only one or a few exchanges make investments and upgrades that involve all or substantially all of their exchange areas in a single year or within a single project over a small number of years. Once the upgrade is made, the investment is used to provide service until its economic life is ended, irrespective of the fact that lower cost technology may later become available.

The recovery of the cost of the actual investment used to provide service is essential to achieve "affordability" and "comparability" of rates for their customers. It is neither realistic nor appropriate to assume that competitors will enter many of these rural markets. Accordingly, the

costs of a theoretical network newly installed network using state of the art technology is not relevant to the actual cost of serving many rural customers. It will be no more than happenstance if the benchmark model leads to achievement of the requirements of the Act for customers of most Rural LECs.

Accordingly, the disadvantages of a national benchmark rate are particularly severe for small Rural LECs whose customers receive service and pay rates based on actual costs of an embedded network.

**4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?**

The effects on competition of denying support to additional carriers must be balanced against the fundamental goals of universal service support. The goal of universal service support is to facilitate the delivery of the full range of defined services. Accordingly, there is little justification for providing support to carriers who are unwilling to assume the obligation of providing that full range of services.

In addition, providing universal service support to carriers who do not provide the full range of services will impose added burdens on those carriers who are willing to undertake the full obligation. Support of a partial service provider would have the unfortunate effect of further raising the costs of the full service provider to the disadvantage of most customers in the relevant area. This would occur because the partial service provider could attract some customers who did not necessarily want the full range of services, reducing the revenues of the full service provider at a greater rate than its embedded costs would be reduced. The result would be greater costs being borne by the full service provider and either higher rates for its remaining customers

or greater per capita universal service support needed by the full service provider. Neither result is consistent with the intent of the Act.

**10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power?**

The resale prohibition of Section 254(h)(3) is not limited to sale of services to the public for profit. Rather, Section 254(h)(3) reads:

“Telecommunications services and network capacity provided to a public institutional telecommunication user under this section may not be sold, resold, or otherwise transferred by such user in consideration for money or any other thing of value.”

Clearly, this broad prohibition was directed to any transfer for value or compensation. “Cost based fees” are merely one method of determining the amount of “money” or “value” to charge for a service. The fact that the fees were based on costs clearly does not make the fee charged any less “money or any other thing of value.” Accordingly, such an approach would violate the prohibition of the Act.

While expanding the range of transfers available to public institutional users would “facilitate” the development of community networks, development of community networks in this fashion is inconsistent with the intent of the Act. The intent of the Act is to provide support solely for public institutional usage. Accordingly, compliance can not be based on the mere fact that a course of action would facilitate the development of community networks.

**26. If the existing high-cost support mechanism remains in place, (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?**

Existing high-cost support mechanisms meet many of the requirements of the Act. In order to meet the requirements of Section 254(b)(4) for equitable and non-discriminatory contribution, it would be necessary to increase the range of entities that provide payments for the high-cost support mechanism. Many elements already meet goals of being explicit and targeted.

For instance, the dial equipment minutes (DEM) mechanism meets the requirement of being an explicit, targeted support mechanism directed to small LECs which lack economies of scope. However, the range of entities providing support for this mechanism should be expanded beyond carriers paying access charges under Part 69 to meet the requirements of the Act.

**27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?**

The high-cost support system could arguably be targeted more precisely, but the high cost support mechanism payments for rural areas do not need to be better targeted to be consistent with the Act. A method by which the high-cost support mechanism could be better targeted could result if the Joint Board refines the basis for determining “comparability” to explicitly include the sum of all rates paid by local customers for “daily” calling, including flat rate local calling, EAS surcharges, measured local usage charges, and short-haul toll. It is impossible to determine whether consideration of these facts would significantly change the distribution of high-cost supports. They may, however, provide a more comprehensive approach to targeting of high cost support.

It is critical, however, that support for Rural LECs continue to be based on their actual costs of providing service so that rates paid by customers remain “affordable” and “comparable”.

**28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?**

Basing the payment to new competitors on the book costs of incumbent LECs may lead to payments to new competitors that are far in excess of the costs of providing service. Such payments would unreasonably subsidize new competitors and may encourage uneconomic investment by new competitors (in order to obtain a portion of the unnecessary support). Such uneconomic investments would have the effect of further increasing the costs that would be borne by other customers of the incumbent LEC without providing any significant benefit to consumers.

While basing payments to new competitors on the book costs of incumbent LECs may appear to be competitively neutral in the sense that the payments would be equal, it would not be competitively neutral because it would fail to recognize the very different costs that are actually borne by the incumbent and the new competitor. As a result, such an approach would lead to an unreasonable subsidy to the new competitors totally unrelated to their costs of providing service.

Such a result encourage uneconomic investment and increase the costs of the remaining customers of the incumbent LEC, which would be completely inconsistent with the objectives of the Act.

**31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?**

Rural telephone companies should be defined in terms of meeting both: 1) the criteria of 47 U.S.C. 153(47); and 2) the criteria for eligibility for suspension or modification of

Section 251(f)(2). Price cap companies should be excluded from the definition of rural companies for determining eligibility to use book costs

While price cap companies may be comprised of a number of smaller individual operating companies, the fact that these companies are operating under price caps clearly demonstrates that their cost characteristics are very dissimilar to the cost characteristics of small Rural LECs. The purpose of a bifurcated approach is to conform the results of the approach to the relevant costs of the company providing the universal service. Accordingly, a definition of rural telephone company used to establish a bifurcated plan must take into account both the overall size of the entity and its price cap status.

**32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? How long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?**

A system of competitive bidding for universal service support would never be appropriate for areas served by Rural LECs. A competitive bidding system would enable well capitalized new competitors to underbid incumbent rural telephone companies, either bidding below their costs or using current state of the art technology which may have lower costs than the embedded technology being used by the Rural LECs. Such an approach may even enable competitors to engage in predatory pricing, while cross subsidizing revenue short falls with revenues from other services.

The result would be substantial pressure on the incumbent LEC, with the possibility of an eventual forced sale of the incumbent LEC, possibly to the competitor that underbid the incumbent or to an affiliated or coordinated entity. Accordingly, a bifurcated system should not transition to a competitive bidding system.

A transition from book costs to proxy costs also appears to pose inevitable defects and undesirable incentives and disincentives for Rural LECs. A proxy cost system will discourage the deployment of long term network investment by Rural LECs because a proxy cost model will inevitably be based upon a form of technology selected by a third party at a time after the incumbent LEC has made its long term investment.

Until the third party endorses a particular form of technology, there will be significant economic incentives to service providers to defer the investment until the “approved” technology is selected. Even then, in an era when costs of service are declining and technology is improving, the prospect of subsequent amendments to the “approved” technology to reflect improvements in the state of the art, will render long term investments for Rural LECs very risky. The result will be to discourage infrastructure development and degrade service.

In addition, a proxy cost model will reward under-investment, where a provider may have or be able to achieve actual costs less than the proxy model by declining to make appropriate investments needed to preserve service quality. While average schedule payments could provide the same incentive, the historic record shows that small average schedule companies do provide quality service and make necessary investments to do so.

**33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting subsidies?**

Assistance at levels currently produced under the HCF and DEM waiting subsidies is likely to continue to be needed by rural LECs in order to meet the requirement of “comparability” of rates and services and “affordability” for customers. Such assistance is needed to cover actual embedded costs which are the relevant costs in markets that are unlikely

to attract investment by competitive providers. For instance, to the extent that the switching technology used in a proxy model reflected a unit cost that cannot be achieved by a small LEC, a reduction of the DEM contribution could have the effect of leaving the small rural LEC with an inadequate support for its costs. Similarly, the need for continuation of the HCF is likely to be directly related to subscription level and the size of the exchange, although it is difficult to quantify the relationship without knowing the specifics of the proxy model.

**40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act.**

The requirement of comparability of rates between urban and rural areas requires that any proxy model account for the differences between the assumptions of the model and the actual costs and characteristics of rural, insular and high-cost areas. The Act also requires that the results, the outputs of the model, be tested.

As previously discussed, the requirements of the Act are based on results, i.e. the effects on customers (“affordability” and “comparability” of rates). If a model that has the most conceptually sound inputs and assumptions leads to rates that are not affordable and comparable, that model would violate the requirements of the Act

Clearly, the Act requires a “results oriented” approach based on the effects on customers. In this context, any proxy model must be tested based on the outputs of the model component to the statutory criteria affordability and comparability of rates. It is not sufficient to focus only on inputs.

As previously discussed, the use of a proxy model may also have ongoing negative effects on investment as a result of the economic incentives to defer investment decisions, which

will ultimately impair both affordability and comparability of rates and services. A mechanism that allows recovery of actual investments by Rural LECs is needed to meet the objectives of the Act.

**42. Will support calculated using a proxy model provide sufficient incentive to support infrastructure development and maintain quality service?**

A proxy cost system will discourage the deployment of long term network investment by Rural LECs because a proxy cost model will inevitably be based upon a form of technology selected by a third party at a time after an incumbent LEC has made its long term investment.

Until the third party endorses a particular form of technology, there will be significant economic incentives to service providers to defer the investment until the “approved” technology is selected. Even then, in an era when costs of service are declining and technology is improving, the prospect of subsequent amendments to the “approved” technology to reflect improvements in the state of the art, will discourage long term investments. The risks will be particularly severe for Rural LECs which may upgrade all or virtually all of their exchange areas at the same time and then be in a position where they must use those investments even after newer, lower cost technology becomes available. If a proxy model does not allow the recovery of actual costs of investments by Rural LECs, the result will be to discourage infrastructure development and degrade service.

As previously discussed, the characteristics of support of “approved” but not “disapproved” forms of technology, which are inherent in a proxy model, will lead to both uncertainty and disincentives to make appropriate investments. The inherent disincentive for infrastructure development will have an adverse affect on quality of service. Accordingly, a proxy model will not meet objectives of the Act for the customers of Rural LECs.

**43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?**

Carriers with costs above the cost projected under a proxy model should have recourse.

There should not be a limitation on recourse to only those companies whose costs are “substantially above” the projected costs.

The most appropriate and effective way to provide necessary recourse would be to allow Rural LECs to freely select to use of their own actual costs, rather than projected costs from a proxy model. Such a selection should be based upon their own evaluations and should not be subject to any significant procedural obstacles. The selection should be binding for a reasonable period of time. Such a time commitment provides a sufficient control on the process.

There is no indication that this approach, which is used by average schedule companies, has lead to inappropriate investment for universal service. Accordingly, retention of this standard is sufficient to moderate the selection of actual costs versus costs developed from a proxy model.

**49. How would high-cost payments be determined under a system of competitive bidding in areas with no competition?**

As previously discussed, competitive bidding for high-cost support is inherently unreasonable. Competitive bidding contemplates that there will be more than one potential provider, each of which would be equally eligible to receive payment. Such an approach appears to be contrary to the presumptions of Section 214(e) for Rural LEC areas.

As previously discussed, under Section 214(e) there is a presumption that there will be a single recipient of universal service support and that additional universal service support recipients will be authorized only after specific findings by State commissions. The underlying assumption of multiple potential recipients of a competitive bidding model is inconsistent with this statutory presumption.

In addition, the risks of serious error and/or unintended consequences are far too severe for use of a bidding system in Rural LEC areas. Further, a competitive bidding system could enable a well capitalized new competitor to selectively underbid incumbent Rural LECs, denying them necessary cost support levels and encouraging sellouts to the new competitors at below market levels.

**69. If a portion of the CCL charge represents a subsidy to support universal service, what is the total amount of the subsidy? Please provide supporting evidence to substantiate such estimates. Supporting evidence should indicate the cost methodology used to estimate the magnitude of the subsidy (e.g., long-run incremental, short-run incremental, fully-distributed).**

The CCL charge does not represent a subsidy to support universal service, but instead represents a contribution to recovery of the costs of the local loop reflected in toll use. Since the cost of the local loop is non-traffic sensitive, the recovery of this cost could be modified to remove the usage based element and substitute a bulk billing or flat rate recovery from toll service providers.